



National Audit Office



REPORT

# COVID-19 business grant schemes

Department for Business and Trade  
and HM Treasury

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## Key facts

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**£22.6bn**

grants paid to businesses between March 2020 and March 2022

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**484,000**

number of grant payments worth £6 billion in total paid by local authorities within a month (March 2020 to April 2020) of the first grant scheme launching

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**314**

local authorities responsible for making grant payments in March 2020

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- Eight** separate grant schemes intended to support businesses through the COVID-19 pandemic
- 4,529,000** number of grant payments made via the schemes to businesses in the period March 2020 to March 2022
- £1.1 billion** estimated losses occurring as a result of error and fraud in business grant schemes, 2020-21 and 2021-22 (just under 5% of the value of grants paid to businesses)
- £11.4 million** of losses recovered by mid-February 2023 (around 1% of estimated losses)
- £142 million** additional funding given to local authorities for administering the grant schemes in 2020-21 (a further £68 million has been or is expected to be given for administering grants paid out in 2021-22)

# Summary

**1** Over the course of the COVID-19 pandemic the government put in place a series of restrictions on daily life aimed at slowing the spread of the virus. While the restrictions varied over time and between different parts of the country, all had an impact on businesses, many of which were forced to temporarily close or curtail their operations. Businesses in the retail, hospitality and leisure sectors were particularly affected as restrictions prohibited or limited large numbers of people gathering in one place.

**2** The government launched a series of financial and other measures to support businesses and soften the impact of the restrictions. These measures included tax reliefs, government-backed loans, the furlough schemes and changes to insolvency regulations. In addition, the government announced in early March 2020 that it would provide grants to support smaller businesses in England. The grants were to be administered by local authorities. Between March 2020 and December 2021 the government launched eight separate grant schemes in three cohorts. The government wanted the grants to reach businesses quickly, particularly at the start of the pandemic. By the end of March 2022 the government had provided £26.9 billion of funding across the schemes to local authorities, of which local authorities had distributed £22.6 billion to businesses.<sup>1</sup>

**3** HM Treasury (HMT) decided the key features of each scheme, including the high-level eligibility criteria and the quantum of support, and announced the schemes. In doing so, HMT worked with the Department for Business, Energy & Industrial Strategy (BEIS) and the Department for Levelling Up, Housing & Communities (DLUHC).<sup>2</sup> BEIS was responsible for the implementation of the schemes, working through local authorities, and was accountable for the use of public money. On receipt of funding from BEIS, over 300 local authorities across England were responsible for making grant payments to businesses in their areas that met the eligibility criteria. In February 2023 the newly created Department for Business and Trade (DBT) took over responsibility for the schemes from BEIS.<sup>3</sup>

<sup>1</sup> The Department for Business and Trade is completing an exercise to recover from local authorities monies they have not distributed to businesses.

<sup>2</sup> At the start of the pandemic, DLUHC was called the Ministry of Housing, Communities & Local Government; the name changed in September 2021. For simplicity we use the current name throughout.

<sup>3</sup> On 7 February 2023 the government announced it had split the Department for Business, Energy & Industrial Strategy into three new departments: the Department for Energy Security and Net Zero; the Department for Business and Trade; and the Department for Science, Innovation and Technology. Responsibility for the COVID19 grants now sits with the Department for Business and Trade. We refer to the Department for Business, Energy & Industrial Strategy as the department responsible for introducing and implementing these grants up to 7 February 2023 and to the Department for Business and Trade as the department responsible for these schemes from 7 February 2023.

**4** In November 2021, the Comptroller and Auditor General (C&AG) qualified his opinion on BEIS's 2020-21 financial statements because, in part, of concerns over the levels of error and fraud estimated in these schemes. In May 2022 the Committee of Public Accounts reported its concerns regarding the estimated levels of error and fraud associated with the schemes. It questioned whether BEIS had made a robust enough assessment of the overall levels of error and fraud.

### **Scope of this report**

**5** This report examines how effectively the government set up and delivered the grant schemes. Early in the pandemic ministers made decisions to accept additional risks. We have recognised in our other work on the COVID-19 response that the government needed to make urgent decisions with limited information to respond to an unprecedented public health emergency. However, even in emergency situations we expect officials to:

- consider risks at the start, and put in place basic controls;
- improve their understanding of risks and the effectiveness of controls over time, refining the programme accordingly; and
- when possible carry out proportionate evaluation of the programme, including identifying lessons that can be applied in the future.

**6** This report assesses how BEIS and HMT performed against these expectations. It places particular emphasis on identifying lessons and steps the government can take to enhance its preparedness for future emergencies. We have not considered similar schemes in the devolved administrations as part of our work. The report draws on a range of evidence sources that are set in more detail in Appendix One (Our evidence base).

### **Key findings**

**7** **BEIS's grants to support businesses were a key part of the government's response to COVID-19.** Between March 2020 and March 2022 local authorities distributed COVID-19 grants costing £22.6 billion via 4.5 million payments to businesses. In terms of cost, the grants were the second most significant element among the overall package of measures introduced by the government to support businesses and employees during the COVID-19 pandemic, alongside the Coronavirus Job Retention Scheme (often referred to as the furlough scheme) and an array of other support measures (paragraphs 1.4 to 1.6, Figures 2, 3 and 4).

**8 Working under significant pressure, BEIS and local authorities succeeded in establishing the schemes and distributing the initial support to businesses quickly.** BEIS had less than a month to develop the initial grant schemes. HMT had asked BEIS to begin preparing plans for a grant scheme in late February 2020. It announced the first scheme as part of the Budget on 11 March, with a second scheme and changes to the first announced on 17 March 2020. BEIS and the 314 local authorities were under significant pressure to respond quickly and at a time when they were also being required to deal with other aspects of the pandemic response. By 19 April 2020, the first point at which progress was reported to BEIS, local authorities had made 484,000 payments totalling £6 billion, accounting for 54% of the eventual pay out from these two schemes. By 24 May 2020, two months after the scheme guidance was published, £9.9 billion (89%) had been paid out via 805,000 payments (paragraphs 2.2 to 2.5; Figure 5).

**9 Local authorities were not notified of new schemes until they were announced publicly by HMT, creating significant practical challenges as they scrambled to respond.** Central and local government had no shared contingency plan in place on how to provide support to businesses in a national emergency. Local authorities reported to us that throughout the pandemic they were often not aware of HMT's intention to launch new schemes until they heard the public announcement. They therefore often found themselves having to scramble to understand the scheme requirements, put in place the right processes and answer queries from local businesses. While BEIS and HMT did consult on a confidential basis with a small number of local authorities, the lack of a strong local authority voice prior to schemes being announced meant that they were sometimes launched with practical issues that took time to resolve fully. For example, it was not straightforward to define what constituted a 'wet-led pub' when deciding eligibility for support under one of the schemes (paragraphs 2.5 and 2.25 to 2.29).

**10 HMT and BEIS sought to better target the support to businesses as the pandemic evolved, although this brought increased administrative complexity at a time when BEIS and local authorities were already stretched.** During the late summer and autumn of 2020 HMT and BEIS introduced targeted schemes to support those businesses most affected by the restrictions. Over this period public health restrictions moved from local to various forms of tiered restrictions and an eventual lockdown. This strategy resulted in the introduction of multiple sub-schemes each with their own eligibility criteria and scheme rules. Over just one five-week period, for example, BEIS issued initial guidance for eight schemes or sub-schemes. Complexities of scheme design and evolution meant that BEIS guidance either took some time to be issued or had to be updated reflecting significant scheme changes. These complexities, coupled with rapidly changing rules, made significant demands of local authority teams and created uncertainty for businesses seeking to understand the support that might be available (paragraphs 2.11 to 2.13; Figure 7).

**11 BEIS relied on existing line management structures to deliver the initial wave of schemes but it took more than one year to put in place more formal programme management arrangements.** The Cities and Local Growth Unit (the Unit), a joint BEIS/DLUHC (Department for Levelling Up, Housing & Communities) directorate, had responsibility for delivering the first cohort of schemes. BEIS remained responsible for the monies passed to local authorities. The initial emergency, which had required action from BEIS across a number of fronts, had left no time to establish a programme board to support the COVID-19 business grant programme. The existing line management chain oversaw delivery of the schemes. The scale and nature of the challenges had made very significant demands on staff in the Unit and tested BEIS processes significantly beyond their normal capacity. In February 2021 a BEIS review identified a number of issues which needed to be addressed – such as inadequate resourcing of the BEIS team, a lack of formal programme governance and a lack of robust programme management. BEIS put in place strengthened governance arrangements in spring 2021, such as a grant programme board including representatives from HMT and local authorities (paragraphs 1.8, 2.9 and 2.14).

**12 Ninety per cent of the estimated £1.1 billion of losses due to error and fraud arose during the initial wave of schemes.** By October 2022 BEIS estimated that error and fraud across all the COVID-19 grant schemes was in the region of £1.1 billion (just under 5% of the value of grants paid to businesses). BEIS estimated error and fraud under the later schemes to be significantly lower. BEIS's estimates were based on taking a sample of payments and performing a series of checks. The sampling approach was designed to produce an estimate of irregular payments rather than make separate estimates distinguishing fraud from error. DBT informed us, however, that of 1,900 irregular payments it had been notified of by local authorities as part of the debt recovery process, 17% involved fraud with the rest involving error (paragraph 2.16).

**13 Introducing pre-payment checks and improving the accuracy of local authority-held data for the second and third cohorts of schemes greatly reduced the risk of losses.** BEIS and local authority officials attributed the greater error and fraud in the initial schemes to the decision not to require pre-payment checks on grant recipients and shortcomings in the data held by local authorities. BEIS guidance to local authorities on the controls to be applied became progressively stronger over the course of the pandemic. Pre-payment checks moved from not being mentioned in the BEIS guidance as part of the normal grant payment process, to being mentioned, to being recommended, to being mandated. Local authorities reported that the accuracy of their data on local businesses had also improved over the course of the pandemic. In addition, local authorities that had relied on manual payment processes at the start of the pandemic were later able to put in place automated systems and became better placed to spot duplicate payments and other potential sources of error (paragraphs 2.17 to 2.20).

**14 BEIS working through local authorities had, by mid-February 2023, recovered £11.4 million of the estimated £1.1 billion of losses (around 1%).** BEIS began considering how to carry out its post-payment checking activities, to estimate the level of loss, as early as May 2020. However, the start of this work was postponed until 2021 as BEIS needed to focus on the second wave of grant schemes in autumn 2020. Attempts to estimate losses therefore did not start until at least 12 months after the payments had been made. BEIS required local authorities to pursue any losses from error and fraud they identify arising from payments. However, as all recovered monies must be paid back to central government, local authorities have had no financial incentive to identify losses beyond those contained within the BEIS-directed samples used to derive the estimates (paragraphs 2.21 to 2.23).

**15 BEIS commissioned an evaluation of the impact of the grant schemes but HMT has yet to commission an evaluation of the overall government support provided to business.** At the start of the pandemic HMT and BEIS took decisions in the midst of great uncertainty and without much of the data that would normally allow them to assess where best to target support and the quantum of support needed. BEIS identified a risk that some of the support provided to some companies might not be needed or make a difference. In November 2021, BEIS commissioned Ipsos to undertake an evaluation of the COVID-19 grant schemes and their economic impact. Evaluating the grant schemes will be challenging given the need to distinguish their impact from that of other measures and, in part, because neither BEIS nor HMT set precise aims for the grants. The Department for Business and Trade (DBT), which now has responsibility for the schemes, expects a final report in spring 2023. BEIS had also commissioned evaluative work examining the impact of its other COVID-19 interventions, including for example the various COVID loans made available to business. DBT expects the evaluations of individual interventions to be complete by summer 2023. HMT informed us it has no parallel plans to evaluate the overall impact of government support to business, for example looking at the impact of support provided across departments and its own response to the emergency (paragraphs 1.9 and 2.31 to 2.36).

## **Conclusion on value for money**

**16** The government achieved its primary objective to deliver financial support to businesses quickly during the COVID-19 pandemic. Working through local authorities, BEIS distributed £22.6 billion via 4.5 million payments to businesses in two years. It did this at a time when local authorities and BEIS were also having to deliver on other pandemic-related priorities. BEIS prioritised speed over conducting pre-payment checks for the schemes launched at the start of the pandemic, but did not then act quickly to conduct follow-up checks. The delay in following-up has made the recovery of amounts wrongly paid more difficult to achieve. DBT, which is now responsible for these schemes, has still to report on the impact of these grants, for example in terms of maintaining jobs and how much support might have been given to businesses that did not need it. Without such an assessment an overall judgement about the value for money of the schemes remains open.

**17** BEIS's experience of working at speed with local authorities to channel financial support during the COVID-19 pandemic offers important lessons should central government ever find itself in a similar crisis situation. HMT and DBT should ensure they use the lessons identified in this report and their own reviews when updating the government contingency plans to respond to future national emergencies.

## **Learning lessons**

**18** HMT and DBT, working with local authorities, should by December 2023 draw up contingency plans to cover the provision of financial support to priority groups in the event of a future national emergency. The plans should draw upon the considerable experience gained by the departments and local authorities during the pandemic. The plans should include:

- the type of leadership, capabilities and governance arrangements that need to be in place as the emergency response evolves;
- the responsibilities for assessing the level of economic risk, identifying potential solutions and taking action;
- the data sources and analysis that might be needed at speed to assess the risk, determine how support might be targeted and the quantum of support needed;
- the mechanisms for drawing upon local authority and departmental delivery expertise early in the design of the emergency support;
- the mechanisms for considering the trade-offs that may need to be made between targeting support and introducing administrative complexity;
- the options available for maintaining adequate control over the disbursement of public money – reducing the risk of error and fraud as far as practicable – whilst acting at pace;



- consideration of what post-payment assurance processes may be needed and what can be done to streamline this; and
- an assessment of the level of resources required to introduce and then manage future schemes when drawing on these lessons.

**19** HMT should, by September 2023, commission work to consider the impact of, and benefit secured from, the range of support to business provided through the COVID19 pandemic to inform the development of future initiatives.